



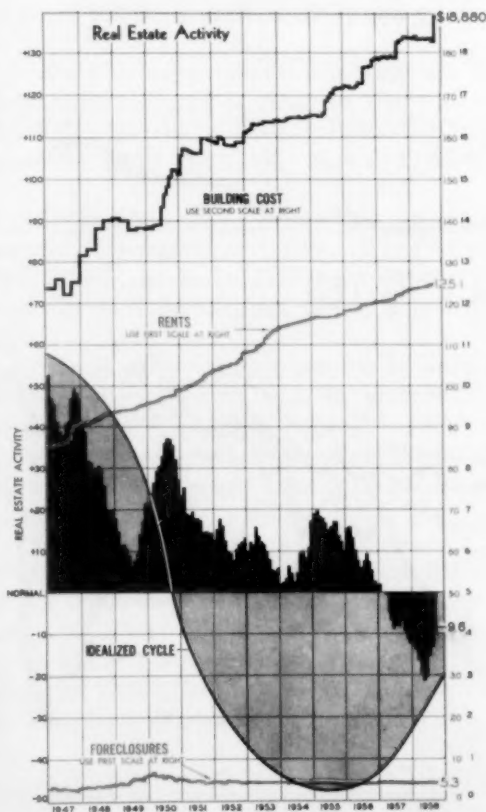
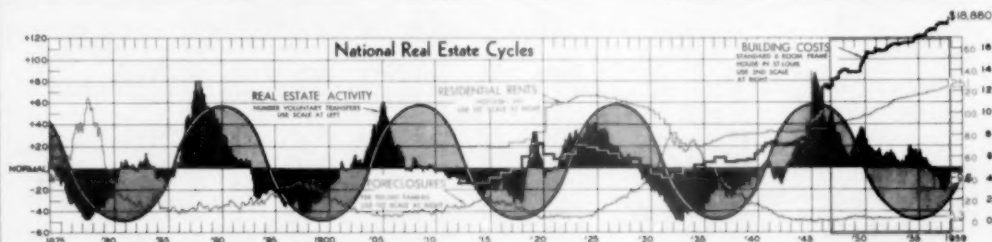
The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS



THE upswing in home building, shifting policies in inventory and purchasing, heavy Government buying, and increasing consumer demand, are the major influences contributing to the rapid recovery from the recession.

Residential construction, stimulated by easier money and other Governmental measures to promote home building, has been an important factor in pulling the economy out of the doldrums. Private housing starts rose from a seasonally adjusted annual rate of 915,000 in February 1958 to 1,220,000 at the September peak -- the highest since October 1955.

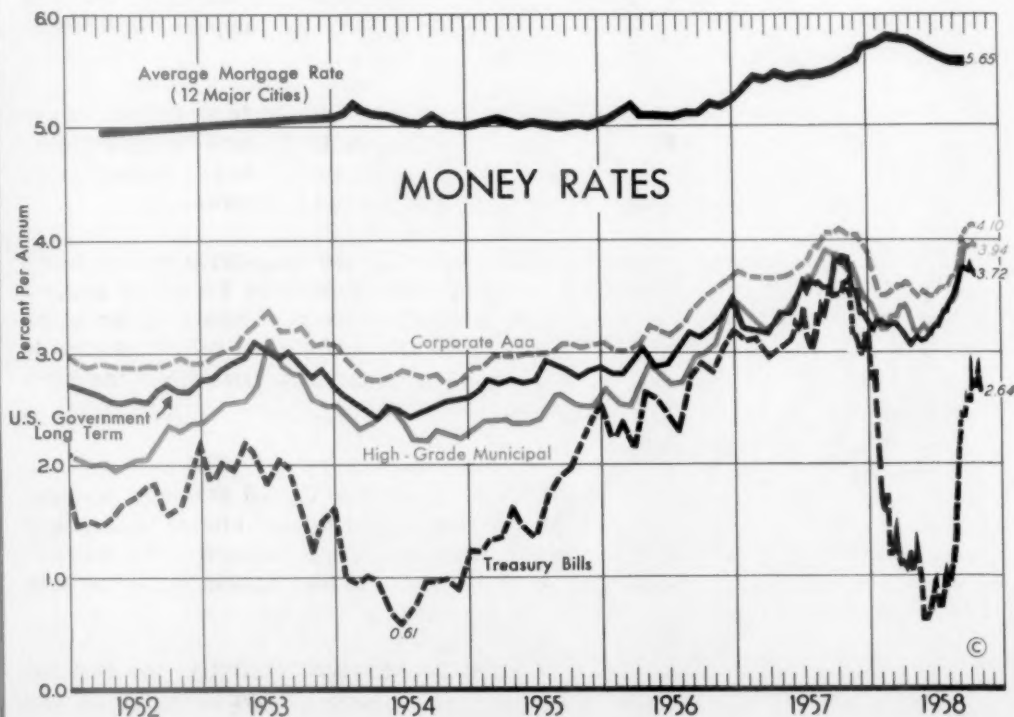
Real estate activity has been inching back toward normal since the low set in March of this year. Real estate activity, as defined on our chart, is the number of voluntary transfers divided by the number of families and charted as a percentage above or below the normal line.

Residential rents have continued to rise, and at the present time are at a new all-time high. However, they are still about one-third lower than they should be in relationship to other goods and services.*

*On June 18, 1958, our bulletin number 25 was entitled "Residential Rents Are Too Low." In this bulletin a comparison of residential rents is made with other living costs showing how much lower rents are in relationship to other goods and services.

AVERAGE INTEREST RATE OF RECORDED MORTGAGES IN 12 MAJOR CITIES OF THE UNITED STATES

Jan. '54	5.187%	Jan. '56	5.105%	Jan. '58	5.775%
Apr. '54	5.173	Apr. '56	5.157	Feb. '58	5.840
July '54	5.089	July '56	5.141	Mar. '58	5.821
Oct. '54	5.092	Oct. '56	5.229	Apr. '58	5.813
				May '58	5.787
Jan. '55	5.045	Jan. '57	5.363	June '58	5.717
Apr. '55	5.079	Apr. '57	5.507	July '58	5.664
July '55	5.050	July '57	5.501	Aug. '58	5.657
Oct. '55	5.055	Oct. '57	5.602	Sept. '58	5.650



The liquidation of inventories has just about run its course. The rate of shrinkage slowed in the second and third quarters of this year. Ordering has picked up since late spring. Buying has increased and business in general has improved. Rising demand for appliances has increased the production and sales of consumer household durable goods from their April low.

Capital expenditures are still declining, but not as rapidly as they were. Business is still faced with overcapacity. Real capital outlays will not start increasing until some time next year. In the meantime, business activity could easily be slowed again. It would be difficult for depleted inventories to sustain a real prosperity for any extended period of time.

Earnings are the key to the continuing upswing. If the increase in production brings an increase in earnings and profits, capital expenditures and inventory building are likely to follow, giving strength to the recovery.

Money rates hit a low early this year, but rebounded sharply following the business upturn, the announcement of a \$12 billion budget deficit, and the Federal Reserve policy toward tighter money. However, they have dipped slightly since the first week in October.

The Federal Reserve discount rate has been increased to $2\frac{1}{2}\%$ in five of its districts, bringing it more in line with interest rates prevailing in the open market. Yields on 91-day Treasury bills are 2.64%, as compared to a low in May of 0.635% and a 1957 high of 3.660%.

Corporate bonds, Aaa-rated, sold on October 18 at a rate of 4.10%, nearing the 1957 peak of 4.14%. Yields on long-term U. S. bonds have risen, practically, to their 1957 peak level. Bond yields reflect heavy demands for funds from corporations, State, municipal, and foreign borrowers.

The U. S. Treasury has made no attempt to raise long-term money since its \$1 billion 27-year 3-1/4s were sold in June. Should the Treasury issue a long-term bond with an attractive yield, it would be tough competition for other outstanding long-term issues. The unmanageable \$12 billion deficit has made many investors wary of long-term bond investments at a time when the purchasing power of the dollar is declining.

Mortgage interest rates lag behind other interest rates. The average rate of all recorded mortgages in 12 major cities of the United States is leveling and should increase in the next few months. Feeling the effects of the easy money policy put in action late last year by the Federal Reserve, the average interest rate of mortgages has gone down from 5.840% in February of this year to 5.650% in September.

Mortgage money is tightening. To stimulate mortgage activity, the Federal savings and loan associations may now lend as much as 90% of the appraised

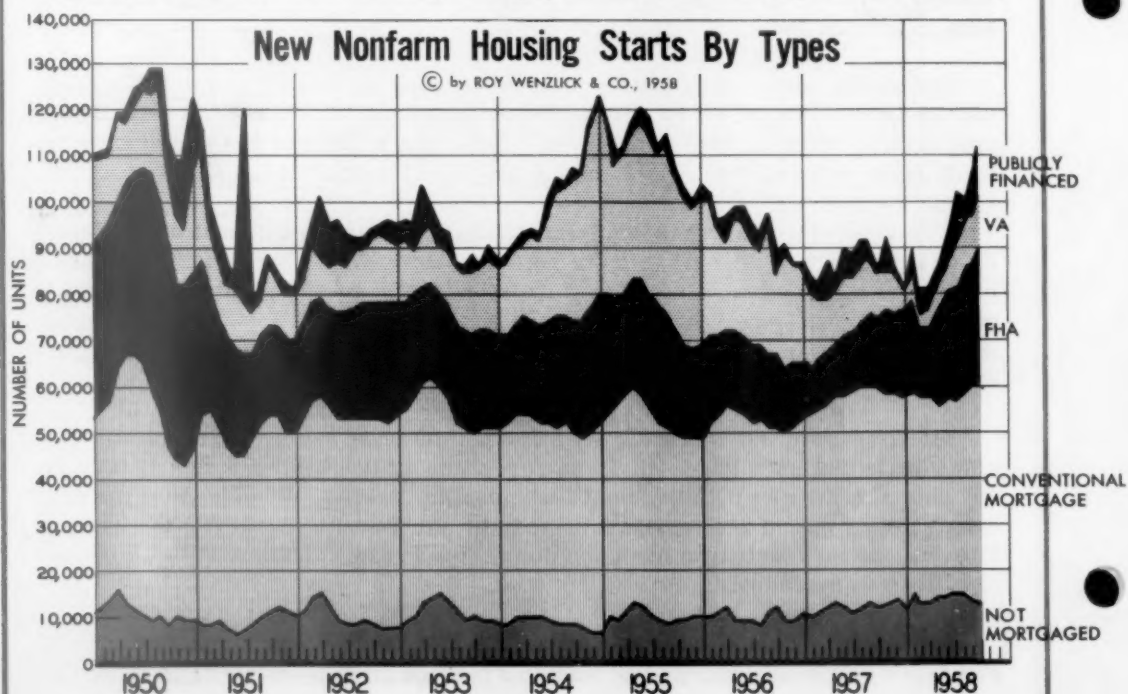
value of homes up to \$18,000 on conventional mortgages. This action was aimed to boost the home building industry in a period of shrinking mortgage funds.

Last month Fannie Mae ended its special program of buying mortgages at par on homes up to \$13,500 insured by the Government. However, pressure will be brought on Congress to provide an additional \$1 billion for Fannie Mae's antirecession program.

Our chart of new nonfarm housing starts shows that home building financed by a conventional mortgage, or with no mortgage, has shown relatively little fluctuation from 1950 to the present. There is little prospect for conventional mortgages to show much change.

The fluctuating part of the home building market during the past 8 years has been the part financed with the low downpayment terms offered by the FHA and VA. Any increase in mortgage activity must come from Government-backed loans.

If the interest rate on FHA loans were legally free to respond to market changes, it would be a large factor in maintaining the volume of private residential building. As it is, the legal maximum rate is 6%. The FHA Commissioner has set the present rate at 5-1/4%. The interest rate on VA-guaranteed loans is legally set at a maximum of 4-3/4% and must be at least 1/2% below the existing FHA rate. As a result, mortgage lenders are asking for discounts up



to 6% on fixed interest mortgages backed by the Federal Housing Administration and the Veterans Administration.

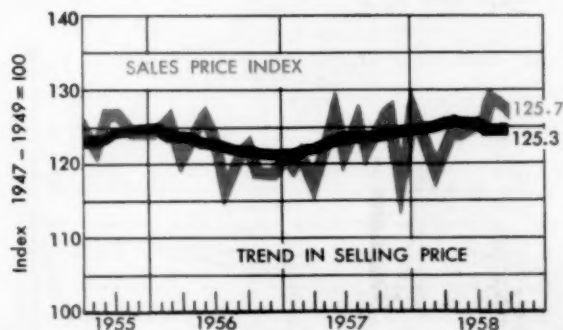
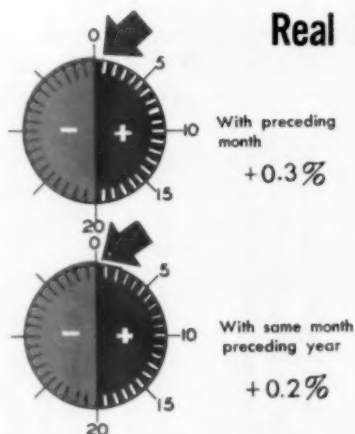
The cost of building a standard six-room frame residence is now \$18,880. Another new all-time high. The increase is due in part to the tightening of money. Builders must have a construction loan in order to build. Because bank rates have increased, the builder must pay more for his loan. The increase is then passed on to the buyer, if the builder is to maintain his same margin of profit. Labor and material costs entering into the above figure have also increased and are therefore reflected in the cost.

After a brief recovery from the recession, the inflation is again becoming a chief cause of concern to monetary officials. The Federal Reserve exercises its control over the supply of money and credit as a means to counter inflation.

Tight money policies can restrain the effects of inflation, but cannot cure the cause.

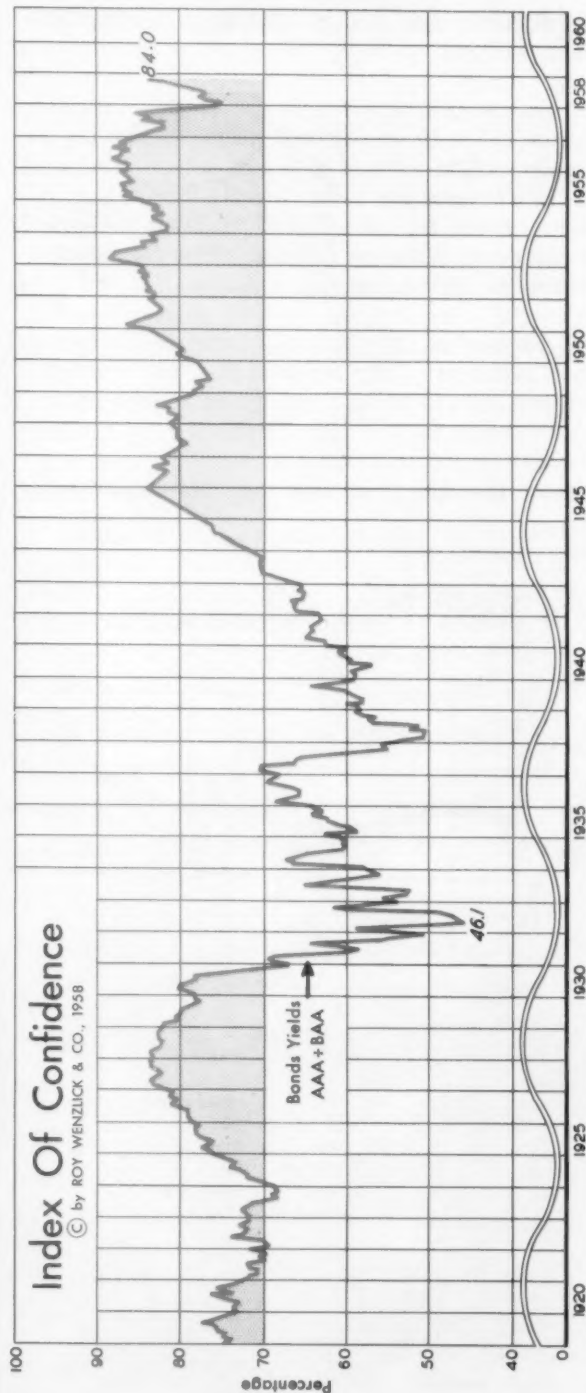
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Real Estate Sales Price Comparisons



Date	Trend in selling price	Probable selling price of a house that sold for \$12,000 in 1947-49 period	Date	Trend in selling price	Probable selling price of a house that sold for \$12,000 in 1947-49 period
1947-49	100.0	\$12,000	Oct. '54	122.3	\$14,680
1913	40.1	4,812	Oct. '55	125.1	15,010
1916	34.1	4,092	Oct. '56	121.9	14,630
Mar. '29	73.9	8,868	Oct. '57	125.3	15,040
May '32	34.8	4,176	Jan. '58	125.5	15,060
Apr. '34	44.8	5,376	Feb. '58	125.7	15,080
July '37	40.1	4,812	Mar. '58	126.1	15,130
Apr. '38	42.8	5,136	Apr. '58	125.9	15,110
Mar. '41	40.1	4,812	May '58	125.9	15,110
Oct. '46	104.5	12,540	June '58	125.9	15,110
Oct. '53	119.7	14,360	July '58	125.1	15,010
			Aug. '58	125.1	15,010
			Sept. '58	125.3*	15,040*

*Preliminary.



The index of confidence, which is based on a study made many years ago by General Leonard P. Ayres, divides the yield of the very best bonds by that of second-rate bonds.

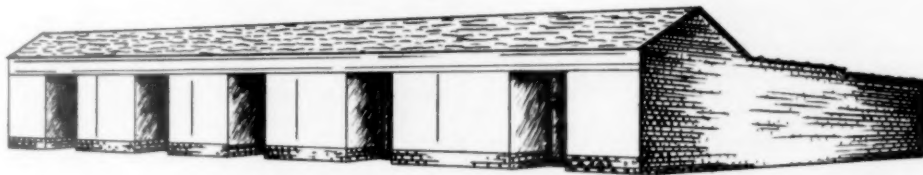
The fundamental theory behind this index is that when confidence drops, the investing public will pay a higher price, in relation to income, for the best type bonds than it will for a second-rate bond. When confidence is very high, however, there is relatively little difference in the prices the public will pay

for the highest grade and second grade.

On this chart it will be noticed that in 1953, and again in 1956, the general public was willing to pay better than 88% as much for a second-rate bond as it was for a first-rate bond. In January of this year this figure dropped to 74.5, and has since sprung back to 84.0. Judging from the behavior of the recovery, a collapse in general confidence will not occur in the immediate future.

INCREASES IN BUILDING COSTS SINCE 1939

ST. LOUIS
October 1958



COMMERCIAL BUILDING - NO BASEMENT

Content: 115,850 cubic feet
8,075 square feet

Cost 1939: \$22,726

(19.6¢ per cubic foot; \$2.82 per square foot)

Cost today: \$72,597

(62.7¢ per cubic foot; \$8.99 per square foot)

INCREASE OVER 1939 = 219.4%

For plans and specifications see page 74
of the Wenzlick Building Cost Manual.



18-FAMILY BRICK APARTMENT

(FRAME INTERIOR)*

Content: 168,385 cubic feet
13,260 square feet

Cost 1939: \$60,300

(35.8¢ per cubic foot; \$4.55 per sq. ft.)

Cost today: \$190,263

(\$1.13 per cubic foot; \$14.35 per sq. ft.)

INCREASE OVER 1939 = 215.5%

For plans and specifications see page 60
of the Wenzlick Building Cost Manual.



30-UNIT REINFORCED

CONCRETE APARTMENT*

Content: 303,534 cubic feet
21,372 square feet

Cost 1939: \$135,000

(44.5¢ per cubic foot; \$6.33 per sq. ft.)

Cost today: \$409,308

(\$1.35 per cubic foot; \$19.15 per sq. ft.)

INCREASE OVER 1939 = 203.2%

For plans and specifications see page 68
of the Wenzlick Building Cost Manual.

*Costs include full basement.

(cont. from page 485)

The cure is not simple. High tax rates have inflationary effects. Lower taxes, in the face of larger budgets, generally mean bigger deficits and more inflation. Government spending is on the upgrade and is expected to reach \$79.2 billion in fiscal 1959 -- up \$7.3 billion from 1958. State and local government spending on public works is scheduled to increase further in the year ahead. Government deficits persistently grow. Government debt, which serves as the base for increases in the supply of money and credit, is the most inflationary of all forces.

There seems to be no immediate prospect for cutting the budget. The acts passed by the present Congress reveal a new peacetime record of commitments.

The way to improve control over Federal spending has best been pointed out by the exhaustive study made by the second Hoover Commission. Their recommendations on budget and accounting alone, had they been adopted, would have saved the Government in the neighborhood of \$4 billion annually -- an amount equal to the total Government expenditures in 1932.